

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 EB-07 INR-07 LAB-04  
NSAE-00 SIL-01 L-03 H-01 PA-01 PRS-01 FEA-01  
SS-15 NSC-05 TRSE-00 ABF-01 /070 W  
-----123963 200535Z /10

R 191140Z JUL 77  
FM AMCONSUL DHAHRAN  
TO SECSTATE WASHDC 5568  
INFO USDOC WASHDC  
AMEMBASSY ABU DHABI  
AMEMBASSY AMMAN  
AMEMBASSY ATHENS  
AMEMBASSY CAIRO  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY MANAMA  
AMEMBASSY MUSCAT  
AMEMBASSY TEHRAN  
USINT BAGHDAD  
USLO RIYADH

LIMITED OFFICIAL USE SECTION 1 OF 2 DHAHRAN 0841/1

E.O. 11652: N/A  
TAGS: BEXP, BENC, BTIO, EFIN, EGEN, ELAB, AGAO, SA, XF  
SUBJECT: US INCOME TAXES HURT AMERICAN COMPANIES IN RACE FOR ROYAL  
COMMISSION PROJECTS

REF: DHAHRAN 0793R

1. SUMMARY: CONVERSATIONS WITH DECISION MAKERS ON THE  
ROYAL COMMISSION FOR JUBAIL AND YENBO DISCLOSE THAT RECENT  
INCREASES IN INCOME TAXES PAID BY AMERICANS WORKING OVERSEAS  
HAVE HAD DOUBLE IMPACT ON THE ABILITY AND THEIR EMPLOYEES TO  
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WIN SAG CONTRACTS. IF U.S. COMPANIES MAINTAIN CURRENT  
LEVELS OF AMERICANS IN THEIR WORKFORCE THEY ARE NOT  
COMPETITIVE AND, IF THEY SHARPLY REDUCE THEIR NUMBER OF  
AMERICANS ON THEIR WORKFORCE TO BE COMPETITIVE, THEY CEASE  
TO BECOME AN AMERICAN COMPANY IN THE EYES OF THOSE  
AWARDING THE CONTRACTS. THIS SITUATION HAS IMPORTANT RAMIFI-  
CATIONS WHICH CONGRESS AND THE EXECUTIVE BRANCH SHOULD

SWIFTLY CONSIDER IF US COMPANIES ARE GOING TO BE ABLE TO  
CONTINUE TO WIN CONTRACTS IN SAUDI ARABIA WORTH TENS OF

BILLIONS OF DOLLARS. END SUMMARY.

2. POST PROVIDES FOLLOWING AS ONE OF THE HARDEST ILLUSTRATIONS OF HOW RECENT U.S. TAX LEGISLATION (COMBINED WITH IRS'S STRICT INTERPRETATION OF EARLIER TAX LEGISLATION) IS COSTING JOBS FOR AMERICAN WORKMEN AND COSTING THEIR EMPLOYERS MAJOR BUSINESS OPPORTUNITIES.

3. CONGENOFF SPOKE ON JUNE 18 TO KHALID TURKI, LOCAL BUSINESS LEADER, REGARDING VISIT OF GAO TEAM (SEE REFTTEL) AND ADVISED THAT AS HE HAS SEVERAL JOINT VENTURES WITH US COMPANIES HE MIGHT WISH APPOINTMENT WITH TEAM TO EXPLAIN IMPACT OF US INCOME TAX LAWS ON OPERATIONS OF HIS COMPANY. TURKI EXPRESSED HIS REGRETS THAT HE WOULD BE UNABLE TO MEET WITH TEAM AS HE WOULD BE OUT OF COUNTRY. NEVERTHELESS HE DID POINT OUT THAT ADDED TAXES ON INCOME OF HIS AMERICAN EMPLOYEES ARE CAUSING HIM SERIOUS CONCERN AND ADDED THAT WITHOUT ARAMCO CONTRACTS, THERE WOULD BE "NO WAY" HIS AMERICAN JOINT VENTURES WOULD BE COMPETITIVE IN SAUDI ECONOMY IF HE MAINTAINED AMERICAN STAFF AT PRESENT LEVELS. IN CASE OF HIS JOINT BENTURE WITH VULCAN MATERIALS (BIRMINGHAM, ALABAMA), EVEN ARAMCO, RECOGNIZING HOW COSTLY LIMITED OFFICIAL USE

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AMERICANS HAVE BECOME, HAS TOLD HIM TO CURTAIL PROJECTED AMERICAN STAFF TO 220 POSITIONS -- 40 PERCENT BELOW WHAT HAS BEEN PLANNED.

4. TURKI, WHO IS ONLY PUBLIC MEMBER OF ROYAL COMMISSION FOR JUBAIL AND YENBO (AND CLOSE CONFIDANT OF MINISTER OF PLANNING HISHAM NAZER), WENT ON TO SAY THAT US COMPANIES ARE LOSING OUT ALMOST TOTALLY ON JUBAIL CONSTRUCTION PROJECTS BECAUSE OF THE RECENT HIKE IN US INCOME TAXES ON AMERICANS WORKING OVERSEAS. HE ESTIMATED THAT THERE ARE US \$600 MILLION WORTH OF CONSTRUCTION PROJECTS TO BE BID ON AND HE THOUGHT AMERICAN COMPANIES WOULD GET ONLY US \$10 MILLION (MOSTLY FOR DESIGN WORK). RECENT BIDS ON YENBO PIPELINE CONTRACT SHOWED US COMPANIES "WAY ABOVE THE OTHER BIDDERS". AT YENBO, ARAMCO HAS WANTED TO RESERVE THE BIDDING ON PETROMIN'S NGL PLANT AND TERMINAL FACILITIES FOR AMERICAN COMPANIES BUT SAG REQUIRED THE OIL COMPANY TO GO WORLD-WIDE ON LOWEST-COST BIDDING ARRANGEMENT. TURKI OPINED THAT ROYAL COMMISSION HAS NOW BECOME LESS INTERESTED IN RECEIVING BIBE FROM AMERICAN COMPANIES EVEN IF THEY ARE IN LOWER RANGE. BEFORE, SAG AGENCIES WOULD HAVE GONE A LITTLE ABOVE LOWEST BID BECAUSE THEY RESPECT AMERICAN

TECHNICAL KNOW-HOW AND FELT THEY WERE GETTING QUALITY FOR THE PRICE. NOW GOVERNMENT KNOWS THAT IF US COMPANY IS AMONG THE LOWEST BIDDERS, THE US COMPANY WILL FIELD A STAFF OF "4 OR 5 AMERICANS AND THE REST BRITISH, KOREAN OR FILIPINO". CONSEQUENTLY, HE CONCLUDED, SAG FEELS THAT IF SO LITTLE OF THE WORK FORCE OF US COMPANIES IS AMERICAN IT MIGHT AS

WELL SIGN CONTRACTS DIRECTLY WITH NON-AMERICAN CONSTRUCTION COMPANIES.

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5. FOREGOING WAS REVIEWED WITH SENIOR MEMBER OF JUBAIL REGION OF ROYAL COMMISSION. HE OBSERVED THAT TURKI'S US \$600 MILLION FIGURE IS PROBABLY ON THE LOW SIDE, BUT NOTED THAT REGIONAL OFFICE HAS NEVER BEEN OFFICIALLY NOTIFIED BY ROYAL COMMISSION THAT IT SHOULD NOT SECURE BIDS FROM AMERICAN COMPANIES. IN POINT OF FACT, HE EXPLAINED "NO AMERICAN COMPANY HAS EVER REALLY BEEN

COMPETITIVE" ON THE CONSTRUCTION PROJECTS BID THUS FAR. CANADIANS, BRITISH, KOREANS, ETC., HE ADDED, CLEARLY HAVE THE EDGE. HE ADDED THAT CURRENTLY THE ROYAL COMMISSION IS "GUN SHY ABOUT THE NET COST OF PROJECTS" AND IT NO LIMITED OFFICIAL USE

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LONGER WILLING TO LET OUT CONTRACTS UNTIL IT IS CERTAIN THAT IT IS BUYING QUALITY AT THE LOWEST AVAILABLE PRICE.

6. COMMENT: POST IS AWARE THAT ADDED INCOME TAXES PAID BY AMERICAN WORKMEN, AS RESULT OF 1976 US TAX LEGISLATION MAY NOT BE THE ONLY REASON WHY A GIVEN U.S. COMPANY MAY NOT BE COMPETITIVE OUT HERE, BUT -- FRANKLY SPEAKING -- US COMPANIES FELT THEY WERE IN THE BALL GAME UNTIL THE INCREASED TAXES BEGAN TO SHOW UP ON THEIR BALANCE SHEETS. NOW, HOWEVER, AMERICAN EMPLOYERS (WHO ROUTINELY HAVE TAKEN ON THE ADDITIONAL BURDEN OF THEIR AMERICAN EMPLOYERS AS CONSEQUENCE OF THE 1976 TAX REFORM ACT) READILY ADMIT THAT THEY CANNOT MAINTAIN THEIR COMPETITIVE POSITION AND RETAIN THE NUMBER OF AMERICANS THEY CURRENTLY HAVE ON THEIR PAYROLL. WE CANNOT THINK OF ANY MEDIUM-TO-LARGE AMERICAN COMPANY HERE WHICH IS NOT ACTIVELY SEEKING IN SOME WAY TO SHARPLY REDUCE THE AMERICAN COMPONENT IN ITS WORK FORCE (ONE AMERICAN ROAD BUILDER ON A SAG HIGHWAY PROJECT HAS, FOR EXAMPLE, NEARLY COMPLETED ITS PROGRAM OF CUTTING ITS AMERICAN WORK FORCE BY 50 PERCENT AND REPLACING THE AMERICAN WORKMENT WITH BRITISHERS). AS FOREGOING SUGGESTS -- CURTAILING THE NUMBER OF AMERICAN EMPLOYEES IS NO SOLUTION SINCE THE COMPANY IN THE PROCESS LOSES ITS IDENTITY AS AN AMERICAN COMPANY AND ALL THAT STANDS FOR IN PRODUCING A QUALITY FINISHED PRODUCT.

7. FINALLY, POST CONSIDERS THESE STATEMENTS BY KEY DECISION MAKERS OF THE ROYAL COMMISSION AS AN IMPORTANT INDICTMENT OF CURRENT US TAX POLICY WHICH DESERVES SERIOUS CONSIDERATION BY AMERICAN CONGRESSIONAL AND EXECUTIVE BRANCH DECISION-MAKERS. THE US \$600 MILLION OR MORE OF PROJECTS MENTIONED BY THE SAUDI OFFICIALS IS A SUBSTANTIAL AMOUNT OF BUSINESS PORTENTIAL, OF COURSE; PARTICULARLY IN LIMITED OFFICIAL USE

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A COUNTRY WHERE AMERICAN TECHNOLOGY, CONSTRUCTION KNOW-HOW AND MANAGEMENT ABILITY ARE SO HIGHLY REGARDED. EVEN MORE IMPORTANT, HOWEVER, THE ROYAL COMMISSION FOR JUBAIL AND YENBO IS A HIGHLY VISIBLE AND PRESTIGIOUS ARM OF THE MINISTRY OF PPLANNING, AND ITS DECISIONS WILL CARRY MUCH

WEIGHT WITH OTHER GOVERNMENT BODIES AND PRIVATE FIRMS.  
MOREOVER, THE MASSIVE JUBAIL AND YENBO COMPLEXES AS  
CURRENTLY ENVISAGED WILL TOTAL MUCH MORE THAN THE  
\$600 MILLION MENTIONED ABOVE; SAUDI OFFICIALS OFTEN SPEAK  
OF THEIR COST IN THE TENS OF BILLIONS OF DOLLARS. THE  
COST OF OUR CURRENT TAX POLICY TO OUR OVERSEAS BUSINESS  
EFFORTS IS BECOMING CLEARER AND MORE STRIKING.  
BUSHNELL

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## Message Attributes

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